

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Received by the Regents

April 17, 2008

Subject: Alternative Asset Commitments

Background and Summary: Under a May 1994 Request for Action, the University may commit to follow-on investments in a new fund sponsored by a previously approved partnership provided the fund has the same investment strategy and core investment personnel as the prior fund.

Pursuant to that policy, this item reports on the University's follow-on investments with the previously approved four real estate partnerships for the Long Term Portfolio and two real estate debt partnerships for the University Investment Pool listed below.

Crow Holdings Realty Partners V, L.P., is a Dallas based real estate fund that will invest in a diversified portfolio of domestic real estate, including industrial, grocery-anchored and neighborhood retail properties, multi-family housing, office buildings, hotels and land. The fund will include income-oriented investments with modest forecasted appreciation as well as value-added or opportunistic investments where a greater amount of the profit will be derived from capital appreciation. The fund's domestic, multi-sector approach allows the manager to adjust to stages in the market cycle and shift fund investments accordingly to seek the most favorable risk-adjusted returns.

This is the University's fifth investment with Crow Holdings. The University committed \$20 million from its Long Term Portfolio to Crow Holdings Realty Partners V in January 2008. The University has committed a total of \$130 million to four prior Crow Holdings sponsored real estate funds.

Embarcadero Capital Investors Three, L.P., is a northern California based real estate fund that will acquire quality office properties in strong markets located primarily in northern and southern California, Washington, D.C., Boston and Seattle. They will target properties that can be acquired at below market prices because they suffer from undercapitalized or dysfunctional owners, are overleveraged or have above market debt, are owned by corporate owners seeking to dispose of excess facilities, or are owned by REITs that are shedding non-core assets. The properties will be ones that, even in down markets, tenants want to be located in due to location and quality. Embarcadero will add value through proactive management of operations and leasing, and will sell the assets into a market that currently values stabilized assets.

This is the University's second investment with Embarcadero Capital. The University committed \$15 million from its Long Term Portfolio to Embarcadero Capital Investors Three, L.P., in January 2008. The University previously committed \$20 million to Embarcadero Capital Investors Two in 2005.

Shorenstein Realty Investors Nine REIT, a real estate fund sponsored by the San Francisco based Shorenstein Company, invests in office buildings and mixed-use projects with a significant office component. The Fund focuses on top-quality assets that by virtue of location, physical quality, amenities, tenant base or other outstanding features enjoy leasing advantages in their respective markets. Within this type of asset, Shorenstein targets those situations in which the firm can acquire a property at an attractive price and then add value to the investment by applying the firm's operating expertise to correct leasing, operating or physical issues that are impairing values. The General Partner believes that on a risk-adjusted basis, these types of assets, when well-bought and well-managed, present a compelling opportunity to participate in the upside of real estate markets with a significant reduction in downside exposure. Historically, trophy properties in top locations are most resilient when markets soften because the premier tenants will continue to want to operate in the best quality properties in the market.

In July 2007 we reported to the Board a \$25 million follow-on investment in this fund. Due to the recent dislocation in the capital markets, Shorenstein is seeing a significant increase in opportunities. Rather than raise a new fund, they have decided the most efficient way to take advantage of this increase in opportunities is to increase Fund IX from \$1.3 billion to \$2.0 billion. In January 2008 the University

committed an additional \$10 million from its Long Term Portfolio to Shorenstein Realty Investors Nine REIT.

Westbrook Real Estate Fund VIII, L.P., is a real estate fund based in New York with offices in San Francisco, Tokyo, London and Paris, that will continue the team's strategy to identify investment themes which it believes will provide attractive opportunities over the life of each fund. For Fund VIII the themes include urgent recapitalizations, dysfunctional ownership, corporate, government and other non-core sellers, and under-valued real estate assets and portfolios. Westbrook will make investments in well-located, high-quality assets available at significant discounts to both replacement cost and current market value, and that will be attractive to a wide range of buyers. Westbrook targets major cities of the world where there are supply constraints, high income jobs, numerous barriers to entry, high liquidity, revitalization of urban centers, and ease of travel. Typical investment size will be approximately \$25-35 million and the transactions are often privately negotiated. The portfolio is expected to be geographically diversified between the United States, Europe and Japan.

This is the University's third investment with Westbrook Partners. The University committed \$25 million from its Long Term Portfolio to Westbrook Real Estate Fund VIII in February 2008. The University previously committed \$45 million to prior Westbrook sponsored funds.

Canyon Capital Realty Advisors LLC: Discretionary Mortgage Investment Account III, is a Los Angeles based fund that invests in various forms of private real estate loans including bridge and mezzanine financing, notes and corporate securities collateralized by real estate, and loans to both investment grade and non-investment grade tenants.

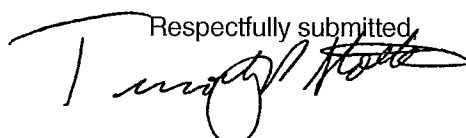
Canyon focuses on mortgage investments that are significantly over-collateralized relative to the intrinsic value of the underlying real estate. Canyon seeks investments where it can control the events necessary to create value and minimize downside risk through ownership or structure, and where the team can capitalize on its financial, credit, legal, environmental and engineering expertise. Canyon has an extensive network to identify transactions and avoids bidding situations and only invests in opportunities that have identifiable exit strategies.

This is the University's third investment with Canyon Capital Realty Advisors LLC. The University committed \$75 million from its University Investment Pool in January 2008 and \$25 million in March 2008 to Canyon Capital Realty Advisors LLC's Discretionary Mortgage Investment Account III. The University committed \$125 million to prior Canyon Capital Realty Advisors LLC sponsored funds.

CT Opportunity Partners I, L.P., has been formed to exploit debt opportunities in commercial real estate and operating companies mainly located in North America. Capital Trust, Inc. is a publicly-traded investment management and finance company that specializes in mezzanine and high yield commercial real estate investments.

The Fund seeks to take advantage of the financial market dislocations by opportunistically investing across the entire capital and product spectrums of high yield instruments backed by commercial real estate and related assets. In the near term, Capital Trust expects that buyers with liquidity will be able to capitalize on the pressure to clear dealer inventories achieving higher returns on performing assets. This Fund builds and expands on the strategy of the prior CT Large Loan 2006 fund. The fund may have a small equity participation, which, if any, will be invested in the Long Term Portfolio.

This is the University's second investment in this type of strategy. The University committed \$50 million from its University Investment Pool to CT Opportunity Partners I, L.P. in January 2008. The University previously committed \$40 million to prior Capital Trust, Inc. sponsored funds.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer